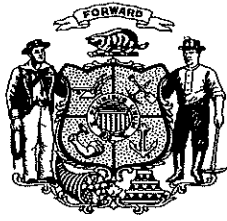


# STATE OF WISCONSIN

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## JOINT COMMITTEE ON FINANCE

### MEMORANDUM

To: Members  
Joint Committee on Finance

From: Senator Howard Marklein  
Representative Mark Born

Date: January 21, 2022

Re: SWIB Report to JFC

Attached is an annual SWIB report to JFC regarding credits ("soft dollars") it generates with securities brokerage firms and describe how those credits are used to acquire investment research services, pursuant to s. 25.17(17), Stats.

This report is being provided for your information only. No action by the Committee is required. Please feel free to contact us if you have any questions.

Attachments

HM:MB:jm



STATE OF WISCONSIN  
INVESTMENT BOARD

JAN 21 2022  
*St. Finance*

January 20, 2022

Senator Howard Marklein, Co-Chair  
Joint Committee on Finance  
317 East, State Capitol  
Madison WI 53707

Representative Mark Born, Co-Chair  
Joint Committee on Finance  
308 East, State Capitol  
Madison WI 53708

Dear Senator Marklein and Representative Born:

Section 25.17(17), Wis. Stats., directs SWIB to provide an annual report regarding credits ("soft dollars") it generates with securities brokerage firms and describe how those credits are used to acquire investment research services. Soft dollars are credits earned from trading with certain brokers that can be used to purchase investment research services. Federal law and Securities and Exchange Commission (SEC) regulations define allowable uses of soft dollars.

It is typical in the investment industry for brokers to bundle trade execution services with their proprietary investment research services in the total amount paid per share for trading commissions. The amount paid per share in this arrangement is generally more than the trade execution only cost per share. There has been significant movement in the industry in recent years, especially in Europe, to shift to an unbundled approach which separates trade execution costs from investment research. Starting in 2019, SWIB began to unbundle trade execution costs from broker investment research services when possible to increase transparency and to select trading partners independently from research.

The majority of SWIB's investment research providers are paid directly through payments initiated by SWIB rather than through bundled trading commissions. The amount paid for the direct payments in 2021 was \$3.8 million, and these expenses are included in SWIB's quarterly report of expenses per Section 25.17(13m), Wis. Stats. that is submitted to the legislature and the Department of Administration. However, due to current SEC rules and interpretations thereunder, some brokers will not accept direct payments for research from SWIB or other U.S. clients unless payments are made using soft dollars paid by a Commission Sharing Agreement (CSA) broker or through traditional bundled trading commissions. These brokers will not accept direct payments because acceptance of direct payments could cause them to be required to register with the SEC as an investment adviser. SWIB's goal is to eventually pay all investment research providers directly and only pay commissions on trade execution, but this requires the SEC to amend its rules or provide additional clarification or guidance around how brokers can be compensated for investment research services.

Since 2019, SWIB has maintained a CSA arrangement with a broker to generate soft dollar credits through trading commissions to obtain broker research not available through direct payments. CSA's are a type of soft dollar arrangement that allows SWIB to pay an eligible broker for trade execution and request that the broker allocate a portion of the commission directly to an independent investment research provider at SWIB's request. CSA's provide more transparency of research costs than traditional bundled commissions.

The table below lists the CSA brokerage firm with which SWIB transacted during calendar year 2021 and the credits earned and expended.

STATE OF WISCONSIN INVESTMENT BOARD

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Broker	Beginning Credit Balance	Credits Earned	Credits Expended	Ending Credit Balance
AllianceBernstein	\$265,019	\$2,215,675	\$2,480,621	\$73

The credits were expended on eligible investment research as specified under Section 28(e) of the Securities Exchange Act of 1934. Below is a list of research providers that received soft dollar credits at SWIB's direction during 2021.

Research Provider
Barclays Capital
CitiGroup Global Markets
Credit Suisse Securities
Goldman Sachs & Co.
JP Morgan Securities
Mizuho Securities
Morgan Stanley & Co.
Raymond James & Associates
RBC Capital Markets
Scotia Capital
UBS Securities

Please contact me with any questions you may have about this report or other Investment Board matters.

Sincerely,



Edwin Denson  
Executive Director/Chief Investment Officer

cc: Members, Joint Committee on Finance  
Robert Lang, Legislative Fiscal Bureau  
Joe Malkasian, Clerk of Joint Committee on Finance